

Message Text

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ACTION EUR-12

INFO OCT-01 ISO-00 AID-05 CEA-01 CIAE-00 COME-00 EB-07

FRB-03 INR-07 NSAE-00 CIEP-01 SP-02 STR-01 TRSE-00

LAB-04 SIL-01 SAM-01 OMB-01 SS-15 NSC-05 L-02 INT-05

/074 W

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R 111541Z MAR 75

FM USMISSION EC BRUSSELS

TO SECSTATE WASHDC 8454

INFO ALL EC CAPITALS 0434

AMEMBASSY ATHENS

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E.O. 11652: N/A

TAGS: EFIN, EEC

SUBJECT: EC COUNCIL (FINANCE) CONSIDERS CURRENCY BASKET AS
UNIT OF ACCOUNT

REF: EC BRUSSELS 1453 (NOTAL)

1. SUMMARY: THE EC MONETARY COMMITTEE AND THE COMMISSION
HAVE PROPOSED THAT THE COUNCIL (FINANCE) ADOPT A EUROPEAN
CURRENCY MARKET BASKET AS A NEW UNIT OF ACCOUNT (U.A.) AT ITS
MARCH 18 MEETING. THE COMMITTEE'S UNANIMOUS DECISION INDICATES
CONSIDERABLE MEMBER STATE SUPPORT FOR THE NEW U.A. IT WOULD
APPLY PROVISIONALLY, HOWEVER, TO ONLY A FEW EC INSTITUTIONS
BUT THE COMMISSION HOPES EVENTUALLY TO BROADEN ITS APPLICATION
TO INCLUDE ALL EC INSTITUTIONS. END SUMMARY.

2. RECOMMENDATION TO THE COUNCIL: THE EC MONETARY COMMITTEE
AND COMMISSION HAVE PROPOSED TO THE EC COUNCIL (FINANCE)
THAT A MARKET BASKET OF EC CURRENCIES BE ADOPTED AS A NEW U.A.
AT FIRST IT WOULD BE ADOPTED PROVISIONALLY BY THE EUROPEAN
DEVELOPMENT FUND (EDF) AND EUROPEAN INVESTMENT BANK. THE
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EUROPEAN COAL AND STEEL COMMUNITY WOULD USE THE NEW U.A. BE-

GINNING IN APRIL.

3. CURRENCY WEIGHTS: THE MONETARY COMMITTEE REACHED UNANIMOUS AGREEMENT AT ITS MARCH 4 MEETING ON USING A BASKET OF CURRENCIES, AND SUBSEQUENTLY THE COMMISSION PROPOSED THE WEIGHTS FOR EC CURRENCIES IN THE BASKET. THE FOLLOWING ARE THE PROPOSED CURRENCY WEIGHTS: DM, 27.3 PERCENT; POUND STERLING, 17.5 PERCENT; FRENCH FRANC, 19.5 PERCENT; LIRA, 14 PERCENT; DUTCH GUILDER, 9 PERCENT; BELGIAN FRANC, 7.9 PERCENT; LUXEMBOURG FRANC, 0.3 PERCENT; DANISH KRONE, 3 PERCENT; AND IRISH POUND, 1.5 PERCENT. THE EC MINI-SNAKE CURRENCIES ACCOUNT FOR 47.5 PERCENT OF THE BASKET.

4. CALCULATION ON NEW U.A.: THE BASKET WILL BE CALCULATED IN TERMS OF THE BELGIAN FRANC (BF). THE COMMISSION WILL PUBLISH THE DAILY VALUE OF THE U.A. COMMISSION OFFICIALS PREFER TO USE THE CURRENCY OF A SMALL MEMBER STATE IN CALCULATING THE U.A. IN ORDER TO KEEP A MAJOR CURRENCY, SUCH AS THE DM, FROM POSSIBLY BEING CALLED THE EUROPEAN DOLLAR. THE U.A.'S ORIGINAL VALUE WOULD BE FIXED AT \$1.20635 AS OF JUNE 28, 1974, WHICH IS THE SAME DATE AND VALUE USED IN ESTABLISHING THE ADR.

5. POSSIBLE FUTURE APPLICATION: THE COMMISSION PREFERS WAITING TO SEE HOW THE MARKET REACTS TO THE NEW U.A. BEFORE PROPOSING THAT

IT BE USED FOR BORROWING OPERATIONS SUCH AS THE EUROPEAN COMMON BORROWING FACILITY. COMMISSION OFFICIALS INTEND TO ASK THE MEMBER STATES TO CONSIDER ADOPTING THE CURRENCY BASKET AS THE U.A. FOR THE EC BUDGET. IT WILL DELAY MAKING ANY FORMAL PROPOSAL, HOWEVER, UNTIL AFTER THE BRITISH REFERENDUM, BECAUSE THE CURRENT BUDGET U.A. HAS THE EFFECT OF REDUCING THE COST OF UK BUDGETARY CONTRIBUTIONS. IT WOULD BE TECHNICALLY FEASIBLE TO USE THE NEW U.A. FOR THE CAP. COMMISSION OFFICIALS BELIEVE, HOWEVER, THAT POLITICAL OBSTACLES WILL DELAY FOR SOMETIME ANY CHANGE IN THE CURRENT CAP U.A. CHANGES IN THE RELATION OF THE U.A. TO THE MEMBER STATE CURRENCIES IN CONNECTION WITH THE CAP AND THE BUDGET BECOME HIGHLY POLITICAL BECAUSE THEY AFFECT THE VOLUME OF MONEY PAID IN OR RECEIVED AND THE SUPPORT PRICES PAID TO FARMERS.

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6. COMMENT: FRENCH FINANCE MINISTER FOURCADE PROPOSED IN SEPTEMBER THAT EACH OF THE MAJOR MEMBER STATES BE GIVEN A WEIGHTING OF 22 PERCENT IN THE BASKET. THE COMMISSION PROPOSED A BASKET ON THE BASIS OF GNP AND INTRA-EC TRADE SHARES (SEE EC BRUSSELS 9970). THE MONETARY COMMITTEE "POLITICALLY POLISHED" THIS PROPOSAL BECAUSE SEVERAL MEMBER STATES WANTED TO ADJUST THE CURRENCY WEIGHTS FOR REASONS OF NATIONAL PRESTIGE. EVEN IF THE NEW U.A. IS ADOPTED, ITS IMPORTANCE SHOULD NOT BE EXAGGERATED.

FLOATING EXCHANGE RATES HAVE FORCED THE EC TO CONSIDER A NEW ACCOUNTING METHOD, AND IT WILL BE SOMETIME BEFORE THE NEW U.A. IS APPLIED TO THE EC INSTITUTIONS THAT REALLY COUNT, I.E., THE BUDGET AND THE CAP. END COMMENT.

7. THE MISSION IS SENDING TO WASHINGTON AGENCIES CONCERNED COPIES OF THE MONTARY COMMITTEE'S AND COMMISSION'S PROPOSALS.
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Message Attributes

Automatic Decaptoning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: REGIONAL ORGANIZATIONS, CURRENCY CONTROLS, MINISTERIAL MEETINGS, MEETING REPORTS
Control Number: n/a
Copy: SINGLE
Draft Date: 11 MAR 1975
Decapton Date: 01 JAN 1960
Decapton Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: GolinoFR
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1975ECBRU02115
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: N/A
Errors: N/A
Film Number: D750085-0823
From: EC BRUSSELS
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1975/newtext/t19750363/aaaacewi.tel
Line Count: 123
Locator: TEXT ON-LINE, ON MICROFILM
Office: ACTION EUR
Original Classification: LIMITED OFFICIAL USE
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 3
Previous Channel Indicators: n/a
Previous Classification: LIMITED OFFICIAL USE
Previous Handling Restrictions: n/a
Reference: 75 EC BRUSSELS 1453
Review Action: RELEASED, APPROVED
Review Authority: GolinoFR
Review Comment: n/a
Review Content Flags:
Review Date: 15 APR 2003
Review Event:
Review Exemptions: n/a
Review History: RELEASED <15 APR 2003 by ShawDG>; APPROVED <16 APR 2003 by GolinoFR>
Review Markings:

Margaret P. Grafeld
Declassified/Released
US Department of State
EO Systematic Review
05 JUL 2006

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: EC COUNCIL (FINANCE) CONSIDERS CURRENCY BASKET AS UNIT OF ACCOUNT
TAGS: EFIN, EEC
To: STATE
Type: TE
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 05 JUL 2006